DECEMBER 1989

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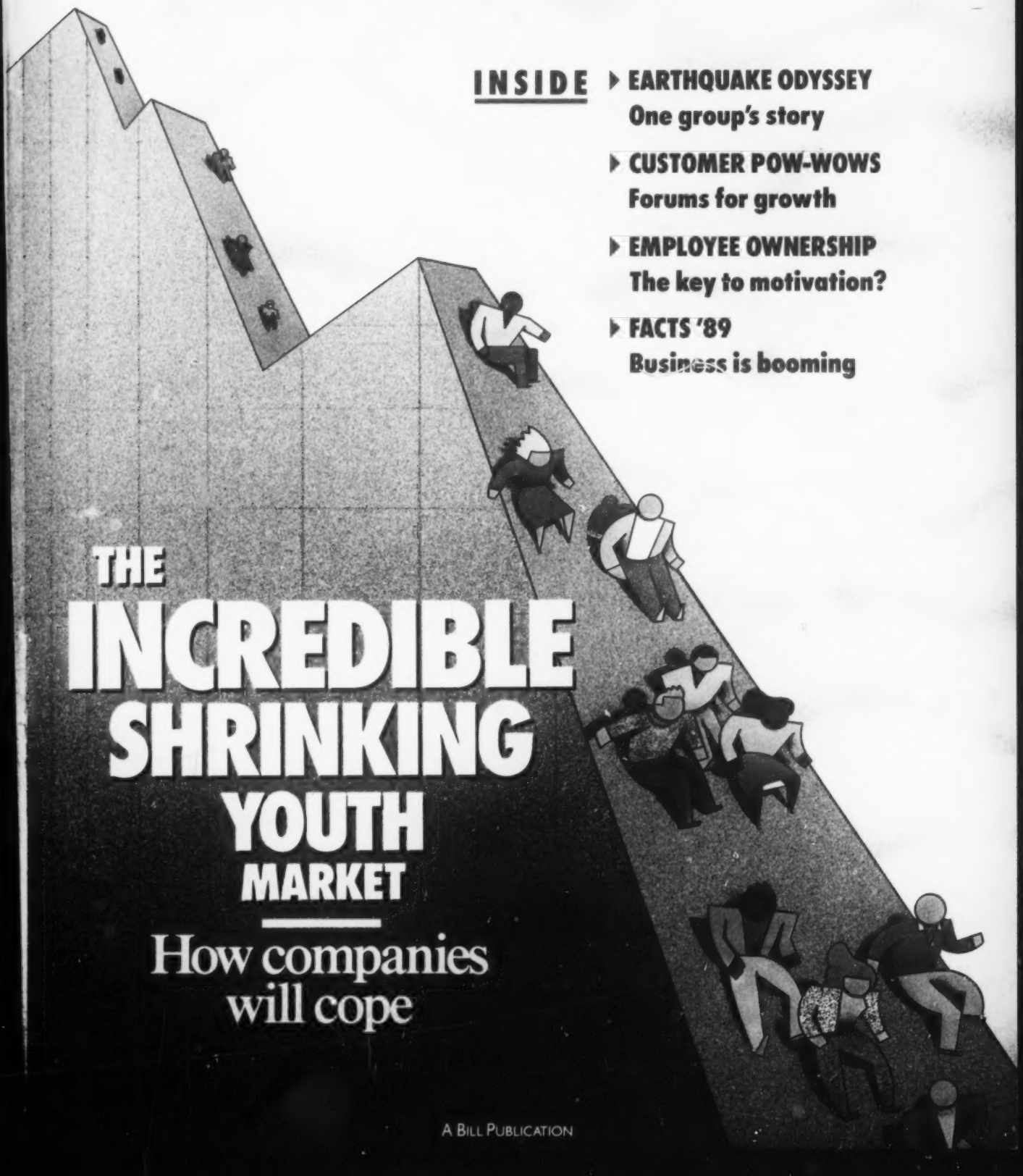
INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION



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THE INCREDIBLE SHRINKING YOUTH MARKET

How companies will cope

A BILL PUBLICATION

DECEMBER 1989

INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION

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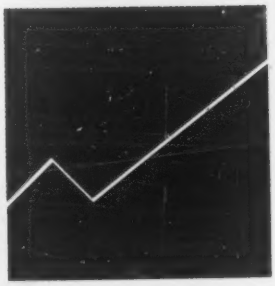


Incentive spending is the strongest it's been in years, thanks to renewed faith in sales motivation and growing use of awards for nonsales employees.

Incentive spending is at its strongest since 1985. Overall motivation expenditures—including sales, dealer and consumer incentives and business gifts—were up about 7.6 percent this year. Sales incentives set the pace, running an estimated 9.9 percent ahead of last year—50 percent faster than the 6.5 percent growth in the rest of the field.

The estimated total of all motivation expenditures in 1989 is $15.83 billion. Sales incentive spending accounts for 33 percent of that figure, totaling an estimated $5.23 billion for 1989.

The sales incentive category maintained its lead despite relatively bland performance this year. Sales yields fell for the second straight year, to an average of 18.7 percent—down a point from 1988 levels. And sales force participation lagged: 37 percent qualified, compared with 42 percent a year ago. On the plus side, average total program cost came to 13 percent of incremental sales, a two-point decrease from the year before; the median held steady at 10 percent.

Dealer incentive usage this year expanded by only about 6.2 percent, in spite of generally encouraging results in users' programs. Sales increases achieved through promotions averaged 16.6 percent, compared with last year's 16.2 percent. The average cost was 10.7 percent of incremental sales gains, compared with a high of 14.7 percent a year ago. Median cost, unchanged for five years, was 10 percent.

A negative element was dealer participation: Acceptance of merchandise offers dropped to 52 percent from 54 percent, while those participating in travel programs dropped to 49 percent from 52 percent a year ago.

Incentive travel showed strength in both sales and dealer programs. Sales incentive travel was up 11.2 percent, compared with a 9.4 percent increase in merchandise expenditures. In dealer incentives, travel gained 7.1 percent versus merchandise's 5.7 percent. Overall, travel gained a healthy 9.5 percent to reach $2.4 billion.

Consumer promotion fared better in 1989 than it did last year, when it managed only a 4.1 percent rise. The present estimate shows product promoters spending 6.3 percent more, while retailers outspent last year by 8.8 percent—for an overall growth of 7 percent.

Little of that growth was supplied by food manufacturers. They are by far the largest users but only increased their efforts by 3.9 percent. The second-ranked industry, toiletries and cosmetics, contributed a 9.9 percent expansion in consumer promotion. Other strong reports come from feed and fertilizer firms, auto parts, office equipment, and paper products.

Manufacturers and distributors of consumer products did well with their 1989 incentive promotions. The survey found an average sales increase during a promotion of 19 percent, compared with the 16.1 percent average reported

THE INCENTIVE FIELD AT A GLANCE

ALL FIGURES IN THOUSANDS

	1989 EXPENDITURES	1988 EXPENDITURES	% CHANGE
▶ SALES INCENTIVES	$5,230,226	$4,760,479	+ 9.9%
Merchandise	3,824,647	3,496,695	+ 9.4%
Travel	1,405,579	1,263,784	+11.2%
▶ DEALER INCENTIVES	$2,863,828	$2,697,004	+ 6.2%
Merchandise	1,868,804	1,768,352	+ 5.7%
Travel	995,024	928,652	+ 7.1%
▶ MERCHANDISE TOTAL	$5,693,451	$5,265,047	+ 8.1%
▶ TRAVEL TOTAL	$2,400,603	$2,192,436	+ 9.5%
▶ TRADE TOTAL	$8,094,054	$7,457,483	+ 8.5%
▶ BUSINESS GIFTS	$1,635,252	$1,551,324	+ 5.4%
▶ CONSUMER PREMIUMS			
Product promotion:	$4,367,255	$4,108,091	+ 6.3%
•Mail-in offers	2,230,496	2,096,579	+ 6.4%
•Direct premiums	2,136,759	2,011,512	+ 6.2%
Retail promotion:	$1,735,821	$1,594,810	+ 8.8%
•Sweepstakes, games	206,349	198,032	+ 4.2%
•Direct, trading stamps	1,529,472	1,396,778	+ 9.5%
▶ CONSUMER TOTAL	$6,103,076	$5,702,901	+ 7.0%
▶ TOTAL USAGE	$15,832,382	$14,711,708	+ 7.6%

Does not include nonsales employee spending, which will be included in a future survey.

INCENTIVE USAGE BY INDUSTRY

ALL FIGURES IN THOUSANDS

INDUSTRY	1989 EXPENDITURES	%CHANGE FROM 1988
Food products	$1,629,594	+ 4.6%
Toiletries & cosmetics	1,074,574	+11.8
Auto parts, tires, accessories	895,326	+ 4.4
Insurance	729,911	+ 6.6
Automobiles & trucks	505,331	+13.6
Electronics, radio, TV	499,504	+ 4.8
Building materials	371,000	+ 9.7
Office equipment	320,856	+11.5
Heating & air conditioning	311,309	+ 5.2
Petroleum products	310,007	+ 5.1
Publishers, printers, broadcasters	305,489	+ 6.0
Beer, ale, soft drinks	256,166	+ 6.3
Detergents & cleansers	237,959	+ 6.0
Electric appliances	227,363	+ 6.1
Feed, fertilizer, farm supplies	224,382	+15.0
Banks, savings & loans	219,240	+ 4.1
Farm equipment	217,253	+ 0.4
Housewares & home furnishings	209,235	- 1.0
Pharmaceuticals	201,877	+ 5.3
Machinery & supplies	174,394	+11.0
Electrical & lighting equipment	131,159	+ 3.5
Industrial chemicals	119,139	+ 6.3
Furniture & floor coverings	95,323	+ 1.2
Paper products & packaging	89,353	+ 5.6
Paints & varnishes	70,382	+ 0.1
Apparel	62,447	+ 3.4
Sporting goods & toys	55,750	- 0.1
Hardware	35,625	+ 0.8
Public utilities	28,305	+ 4.4
Miscellaneous manufacturers	902,297	+11.2
Miscellaneous services	1,015,479	+ 8.1
Wholesalers & distributors	1,499,270	+ 9.7
Retailers	2,807,083	+ 8.4

last year. This marks a return to precedent—the figure ranged from 18 percent to 20 percent over the four previous years.

Those who count on incentives to gain display space found success. Where last year's respondents indicated a display-use average of 49 percent, the 1989 survey indicated that 58 percent of retailers use the materials. The increase averages 31 percent over non-promotion periods.

Retailers increased their incentive efforts by 8.8 percent, compared with the rather anemic 2.7 percent growth of 1988. Direct premiums—including continuity and tape-redemption plans in the grocery field—grew by 9.5 percent, while the smaller category of sweepstakes and games gained 4.2 percent. In the grocery industry, a large decline in the use of trading stamps was more than offset by heavy usage of other promotion types. In sales incentive activity, retailers in all industries accelerated by 8.9 percent, spending over $758 million to motivate salespeople.

Marketers' expenditures for business gifts, which trailed the rest of the field in 1988 with 4.3 percent growth, are doing a bit better this year—but still lag with a 5.4 percent estimated increase.

Against the 7.6 percent increase in overall incentive spending, a number of industries stand out this year as considerably more aggressive than the average. Makers of feed, fertilizer and farm supplies top the list with a 15 percent expansion. This is in sharp contrast with 1988, when they showed a slight decline in usage. In the feed industry's largest incentive area, dealer motivation, users added a whopping 19.3 percent to budgets. They reported a 15.8 percent gain in sales incentives and an 11.3 percent consumer promotion spending rise.

Car and truck manufacturers said they were spending 13.6 percent more. While concentrating their consumer promotion on price cuts that they call "incentives," they put strong emphasis on merchandise and travel incentives for salespeople (up 18.7 percent) and dealers (up 11.3 percent).

The other big spenders this year are toiletries and cosmetics, up 11.8 percent; office equipment, up 11.5 percent, and machinery and supplies, up 11.0 percent.

Distributors and wholesalers, a broad category representing portions of all industries, were somewhat more aggressive than the average of manufacturers, increasing incentive expenditures by 9.7 percent. The growth covers all areas, with dealer incentives adding 10.4 percent, sales incentives, 9.0 percent, and consumer premiums, 8.5 percent. And these businesses estimate that they are buying 13.1 percent more gifts.

Six industries have not joined the fun: Two decreased incentive spending slightly, and four increased expenditures by minuscule percentages. Posting minus figures were housewares and home furnishings and sporting goods and toys. Those that increased by less than the inflation rate were farm equipment, furniture and floor coverings, paints and varnishes, and hardware—none with more than a 1.2 percent gain.

This year, **Incentive** conducted its second detailed survey of nonsales employee motivation—a major growth area. While the available data does not permit estimates of overall activity, some patterns are emerging.

About 59 percent of this year's respondents offer cash awards to employees. Three categories of merchandise—selected items, catalogue choices and plaques—are used by 46 percent, 32 percent and 25 percent, respectively. Twenty-two percent use travel. The percentages total well over 100 because of multiple usage in the same programs. Merchandise expenditures rose 27.5 percent, while cash awards are up 19.8 percent and travel is up 6.7 percent. (Cash payments do not figure in the other incentive survey reports.)

Sales Incentives

Spending is strong despite lower sales increases and a decline in participation.

Sales motivation is usually the fastest-growing segment of the incentive field. But it is unusual for major growth to take place without participation by many of the top players.

The largest industry user of sales incentives—insurance—added only 8.1 percent, less than the average, to its expenditures. The third- and fourth-largest users—auto parts and accessories, and electronics—also held back.

Industrial chemicals, office equipment, automobiles and trucks, building materials, and feed, fertilizer and farm supplies all advanced by more than 15 percent, compensating for the slower pace of some larger users. And toiletries and cosmetics, the second-ranked user, gained 14.6 percent.

Among the other tabulated industries, only furniture and floor coverings reduced its sales incentive budget—by 3.3 percent.

Of $5.23 billion in expenditures, about $3.8 billion went for merchandise, and the remaining $1.4 billion was spent on incentive travel.

With the reality of lower sales growth and less participation, one might expect some users to be unhappy with the year's experience. But nothing in the survey responses or in individual comments points to major doubts. And expanding budgets indicate that users still view sales incentives as tools with enormous power.

Here is how the individual industries moved this year in their expenditures:

Apparel	+12.8%
Auto parts, tires & accessories	+ 2.0%
Automobiles & trucks	+18.7%
Banks & savings and loans	+ 1.8%
Beer, ale & soft drinks	+ 5.7%
Building materials	+17.0%
Detergents & cleansers	+ 4.7%
Electric appliances	+ 4.6%
Electrical & lighting equipment	+ 4.5%
Electronics, radio & TV	+ 6.5%
Farm equipment	+ 6.6%
Feed, fertilizer & farm supplies	+15.8%
Food products	+12.7%
Furniture & floor coverings	- 3.3%
Hardware	+ 3.1%
Heating & air-conditioning	+11.8%
Housewares & home furnishings	+ 4.4%
Industrial chemicals	+21.5%
Insurance	+ 8.1%
Machinery & supplies	+14.6%
Office equipment	+18.7%
Paints & varnishes	+ 3.0%
Paper products & packaging	+ 5.7%
Petroleum products	+ 5.1%
Pharmaceuticals	+ 9.0%
Public utilities	+ 6.3%
Publishers, printers, broadcasters	+ 6.7%
Sporting goods & toys	+ 3.4%
Toiletries & cosmetics	+14.6%
Distributors & wholesalers	+ 9.0%
Retailers	+ 8.9%

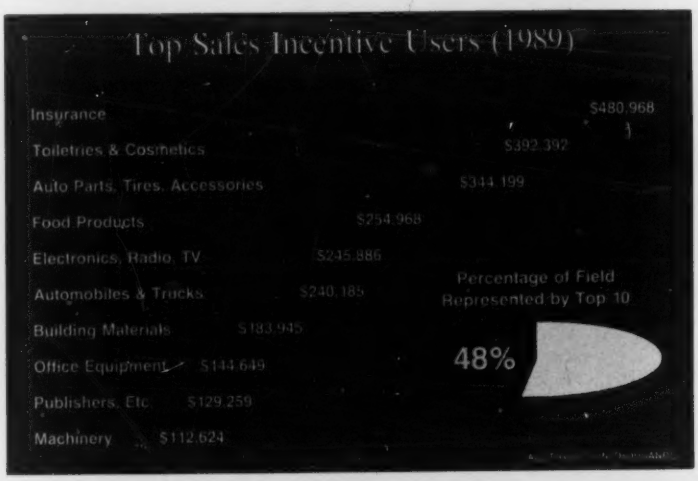
While the surveys estimate only expenditures for merchandise and travel, respondents were also asked about cash awards this year. A minority of sales executives has long favored cash. Giving away money is relatively simple and, theoretically, trouble-free.

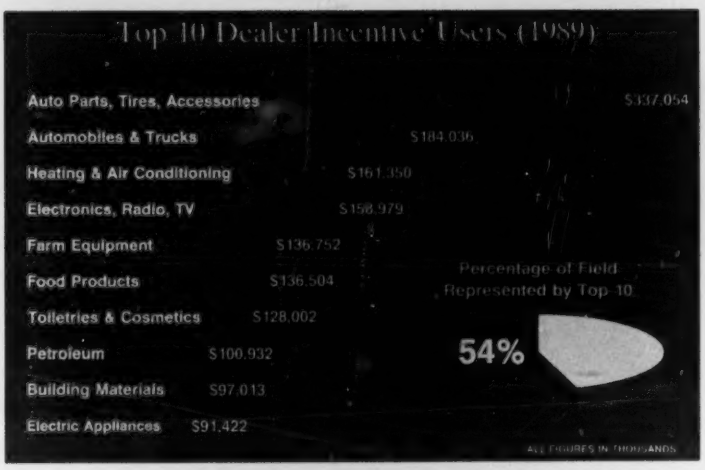
The survey questionnaire asked: "In otherwise identical incentive campaigns (and assuming the sales force is adequately compensated), which type of award do you find yields the best results?"

Respondents voted this way: travel, 40 percent; merchandise, 39 percent, and cash, 21 percent. In their accompanying comments, many cited the obvious advantages of noncash awards: that they are not "lost" by mixing them with normal earnings income, that they can be dramatized far more effectively and that they serve to provide visible recognition—the ultimate motivator. An important advantage, too, is the greater value that can be offered through merchandise or travel for the same expenditure. Users generally purchase noncash awards at wholesale prices.

Other emphasized values included easier involvement of families, the ability to tie awards to more imaginative themes and the element of fun in the promotion. Proponents of travel also pointed to the valuable rapport that often develops between management and the sales force during a trip—or with dealers, when both salespeople and dealers are on the same group trip. **CONTINUED ON PAGE 26**

Many respondents cited the advantages of non-cash awards: visible recognition and no confusion with regular earnings income.





Dealer Incentives

With participation dropping off, marketers hold the line on dealer motivation spending.

In a year of acceleration in incentive promotion, dealer motivation programs were the only major type that did not grow more this year than in 1988. The total of all spending rose by an estimated 7.6 percent, compared with a 5.3 percent growth last year. But dealer growth was 6.2 percent, compared with 6.3 percent a year ago.

In **Incentive**'s 1987 survey, more than 60 percent of respondents said they were increasing their expenditures for dealer promotion. Last year, the figure dropped to 44 percent, and this year's study found about 38 percent increasing their budgets. Few spent less, but most stood pat with previous expenditure levels.

The average unit cost of merchandise awards dropped to $195 from last year's $228. The median was steady at just $50. The travel average also declined by almost $100, from $2,221, but the median increased to $1,850 from $1,775.

Only nine industries increased dealer promotion by more than the overall 6.2 percent average. Only two of those were among the top 10 users: automobiles and trucks, and toiletries and cosmetics.

Here is how tabulated industries stacked up compared with 1988:

Apparel	+ 2.8%
Auto parts, tires & accessories	+ 5.1%
Automobiles & trucks	+11.3%
Banks & savings and loans	+ 3.0%
Beer, ale & soft drinks	+ 2.1%
Building materials	+ 3.5%
Detergents & cleansers	+ 9.3%
Electric appliances	+ 9.1%
Electrical & lighting equipment	+ 6.5%
Electronics, radio & TV	+ 4.9%
Farm equipment	- 1.2%
Feed, fertilizer & farm supplies	+19.3%
Food products	- 3.3%
Furniture & floor coverings	+ 3.1%
Hardware	+ 3.1%
Heating & air-conditioning	+ 2.1%
Housewares & home furnishings	+ 1.8%
Industrial chemicals	- 1.4%
Insurance	- 3.6%
Machinery & supplies	+ 6.5%
Office equipment	+ 5.4%
Paints & varnishes	+ 2.5%
Paper products & packaging	+ 5.2%
Petroleum products	+ 4.8%
Pharmaceuticals	+ 5.6%
Public utilities	+ 4.6%
Publishers, printers & broadcasters	+10.2%
Sporting goods & toys	+ 1.7%
Toiletries & cosmetics	+14.6%
Distributors & wholesalers	+10.4%
Retailers	+ 8.0%

Total expenditures estimated for this year were $2.86 billion: more than $1.8 billion for merchandise and not quite $1 billion for travel awards.

More users in this year's survey reported aiming their incentives at distributors and wholesalers than in most past studies. Compared with a usual range of 48 to 50 percent, 57 percent of these marketers said they direct programs toward this group. The survey found that retailers were targeted in 34 percent of cases, commercial or industrial dealers in 22 percent, and service contractors, 11 percent.

Means of evaluating a dealer incentive promotion vary greatly. Comparisons are most often made with previous periods, usually the prior year. But what do you count and compare? This year's reports showed that half of the companies calculate dealer orders received.

Three other benchmarks are used by substantial numbers as well. One-third measure on the basis of factory shipments. Another 31 percent base their evaluations on the number of new accounts obtained during the course of the program. Twenty-eight percent of respondents base measurements on sales-force reports—which presumably include parts of the other criteria.

Incentive Travel

Spending is up, but results are off this year.

Incentive travel enjoyed a relative boom in spending this year, but that was tempered by a decline in sales effectiveness. The total tab this year comes to $2.4 billion, with about $1.4 billion going for sales-force motivation and the rest for dealers.

Users told **Incentive** that they were getting less for their money. Travel-generated sales increases this year were estimated at just 16 percent. That compares with 18.4 percent reported last year and 20.8 percent in 1987.

The sales-increase report is lower than that found in both the sales and dealer incentive reports this year.

The difference suggests that programs based largely on merchandise may be outrunning travel campaigns in sales effectiveness.

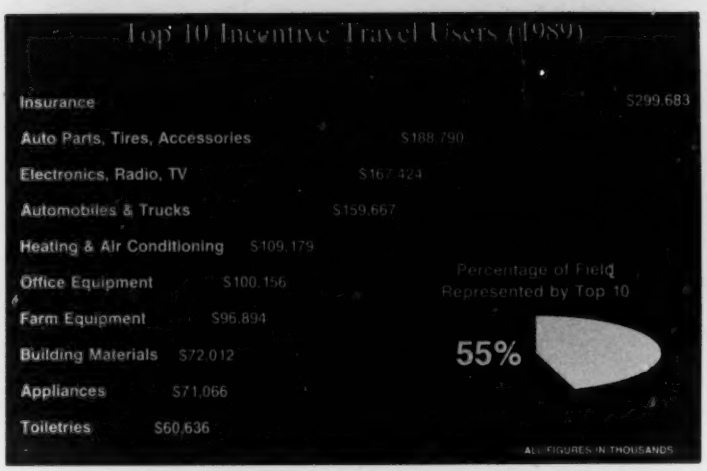
As in the separate sales and dealer surveys, participation is down somewhat. This year's travel survey shows an average qualification level of 34 percent of eligible people, compared with 37 percent a year ago.

Despite the substantial growth in travel usage, only four of the top 10 user industries increased spending significantly. The largest move was made by office equipment, last year's seventh-ranked user, which moved up to sixth with a 16.3 percent increase. The fourth-ranked automobile and truck industry added 10.8 percent to its incentive travel outlays. Ninth-ranked electric appliances rose 10.2 percent, and 10th-ranked toiletries was up 10.3 percent.

Here is the way all the tabulated industries estimated their spending for 1989:

Apparel	+12.0%
Auto parts, tires & accessories	+ 7.2%
Automobiles & trucks	+10.8%
Banks & savings and loans	+ 9.5%
Beer, ale & soft drinks	+ 6.8%
Building materials	+ 9.7%
Detergents & cleansers	+ 2.5%
Electric appliances	+10.2%
Electrical & lighting equipment	+ 5.9%
Electronics, radio & TV	+ 7.8%
Farm equipment	+ 3.1%
Feed, fertilizer & farm supplies	+16.0%
Food products	+ 0.0%
Furniture & floor coverings	+ 6.4%
Hardware	+ 3.0%
Heating & air-conditioning	+ 5.9%
Housewares & home furnishings	+ 3.9%
Industrial chemicals	+11.9%
Insurance	+ 4.9%
Machinery & supplies	+ 9.9%
Office equipment	+16.3%
Paints & varnishes	+ 2.7%
Paper products & packaging	+ 5.2%
Petroleum products	+ 3.7%
Pharmaceuticals	+10.9%
Public utilities	+ 6.7%
Publishers, printers & broadcasters	+10.5%
Sporting goods & toys	+ 2.9%
Toiletries & cosmetics	+10.3%
Distributors & wholesalers	+ 7.6%
Retailers	+14.4%

With negative findings in sales results and participation, it is some comfort to see relatively good news in the cost area. The average per-person trip cost this year is only 2 percent higher than a year ago—$1,650, compared with $1,611—in contrast with the rapid escalation of some recent years. However, the median rose more—to $1,500 from $1,300. The good news is in the incremental sales figures. The median cost on that basis fell to 7 percent of added sales from last year's 8 percent.



The profile of the trip itself changed slightly this year. About 62 percent of users favored group trips, compared with 64 percent last year. Group size was smaller: 124 people on average, with a median of 50, compared with a 131 average and 70 median in 1988. Five nights remained the favored length.

Consumer Incentives

Consumer promotion rebounds after a dismal 1988—but that's with no thanks to food makers.

After standing still for most industries last year, consumer promotion revived in 1989 with a 7 percent increase in spending.

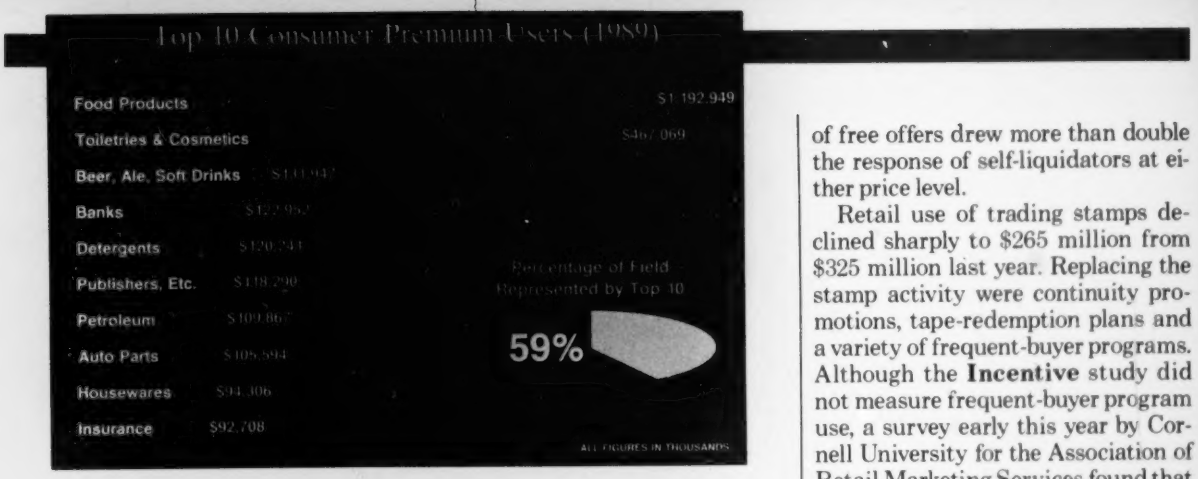
With inflation at 4.4 percent in 1988, consumer promotion registered a 4.1 percent increase over the year before—not enough to cover rising costs. Product promotion ran about 4.7 percent ahead, while retailers' efforts gained only 2.7 percent. In 1989, retailers led the way, expanding by 8.8 percent; manufacturers' product promotions added 6.3 percent.

Consumer incentive activity this year totaled an estimated $6.1 billion. Product promoters spent $4.4 billion, and retailers spent $1.7 billion.

Food manufacturers, who account for more than a quarter of all consumer incentives, did not pull their weight this year but were somewhat more active than in 1988. Last year, food promotions rose only 2.3 percent in the estimates; for 1989, they increased by 3.9 percent. In the front-running food industry, that increase amounts to almost $45 million.

The big spenders in terms of year-to-year increases were auto parts, feed, fertilizer and farm supplies, and toiletries and cosmetics.

Consumer promotion declined in eight industries, with apparel and paint and varnish marketers both cutting more than 6 percent off their budgets. Other industries that pulled back: electrical and lighting equipment, farm equipment, hardware, housewares and home furnishings, machinery and supplies, and sporting goods and toys. →



Automobile manufacturers, whose price-cutting spree had reduced consumer incentive spending by 53 percent since 1985, showed some increase this year—up 3.5 percent.

The 1988-to-1989 changes in consumer promotion by all the tabulated industries were as follows:

Apparel	- 6.7%
Auto parts, tires & accessories	+ 8.3%
Automobiles & trucks	+ 3.5%
Banks & savings and loans	+ 5.1%
Beer, ale & soft drinks	+ 6.0%
Building materials	+ 4.9%
Detergents & cleansers	+ 5.0%
Electric appliances	+ 5.9%
Electrical & lighting equipment	- 5.9%
Electronics, radio & TV	+ 3.2%
Farm equipment	- 4.6%
Feed, fertilizer & farm supplies	+11.3%
Food products	+ 3.9%
Furniture & floor coverings	+ 2.0%
Hardware	- 3.5%
Heating & air-conditioning	+ 2.9%
Housewares & home furnishings	- 4.1%
Industrial chemicals	+ 6.6%
Insurance	+ 7.3%
Machinery & supplies	- 0.3%
Office equipment	+ 7.6%
Paints & varnishes	- 6.3%
Paper products & packaging	+ 7.1%
Petroleum products	+ 5.9%
Pharmaceuticals	+ 6.3%
Public utilities	+ 3.0%
Publishers, printers, broadcasters	+ 5.0%
Sporting goods & toys	- 4.2%
Toiletries & cosmetics	+ 9.9%
Distributors & wholesalers	+ 8.5%
Retailers	+ 8.8%

Direct premiums as a whole were up 6.2 percent, with near packs up 6.5 percent and factory packs up only 3.8 percent. The coupon plan, spurred by new frequent-buyer promotions, rose by an estimated 9.4 percent.

Mail-in offers, which account for just over half the promotions of product marketers, increased this year by 6.4 percent. Within the mail-in group, self-liquidators increased most—7.2 percent, compared with 4.9 percent for free mail-in offers and 2.9 percent for sweepstakes.

Here, in thousands of dollars, are the estimates for 1989 spending in the six consumer categories:

Self-liquidators	$1,306,287
Free mail-ins	604,584
Sweepstakes & contests	319,625
Near-pack premiums	1,091,808
Factory packs	641,285
Coupon plans	403,666

User evaluation of consumer promotions improved from 1988 when the average estimated sales result dropped to a five-year low of 16.1 percent. This year's survey reported sales gains averaging 19 percent, more in line with previous experience.

Response to mail-in offers held fairly steady overall, with one significant change. In past years, the average response per 1,000 showed a distinct edge for lower-priced self-liquidators over those at $10 or more. This year, the average showed a slight advantage in response for the higher-priced offers. Returns per 1,000 ranged from four to 10 for low-priced liquidators and from six to 10 at higher prices, depending upon the medium measured. Print media did best for low-priced offers, while print and store displays pulled about equally for high-priced premiums.

Response to free-in-the-mail offers was stronger, ranging from 13 to 27 per 1,000, with the highest returns reported for broadcast offers, although print was close behind. Users reported that print advertising of free offers drew more than double the response of self-liquidators at either price level.

Retail use of trading stamps declined sharply to $265 million from $325 million last year. Replacing the stamp activity were continuity promotions, tape-redemption plans and a variety of frequent-buyer programs. Although the **Incentive** study did not measure frequent-buyer program use, a survey early this year by Cornell University for the Association of Retail Marketing Services found that supermarket operators planned a 23.5 percent increase in such promotions.

In the use of sweepstakes and games by retailers, supermarkets dragged their feet a bit, with their game promotions off by an estimated 10.7 percent. The loss was made up by heavier sweepstakes activity in other retail industries.

Business Gifts

Both the cost and number of gifts are up, particularly in the food and insurance industries.

American business is giving more gifts this year—but not many more, as business gifts remain the slowest-growth portion of the incentive field for the third year in a row. The total estimate for 1989 spending is $1.64 billion. The increase of 5.4 percent was greater than a survey group estimated earlier this year; at that time, it projected a 4.7 percent rise in their gift budgets.

Although the median expenditure for a gift has held firm at $20 for three years, the average—reflecting more high-priced selections at the top—rose from $56 to $75 and now to $88. Twenty-seven percent of executives in the earlier survey reported spending more per gift than they had a year ago. Meanwhile, gift givers spread the good will a little farther: The median number of gifts per year,

which had been unchanged at 100 for several years, jumped this year to 125 recipients.

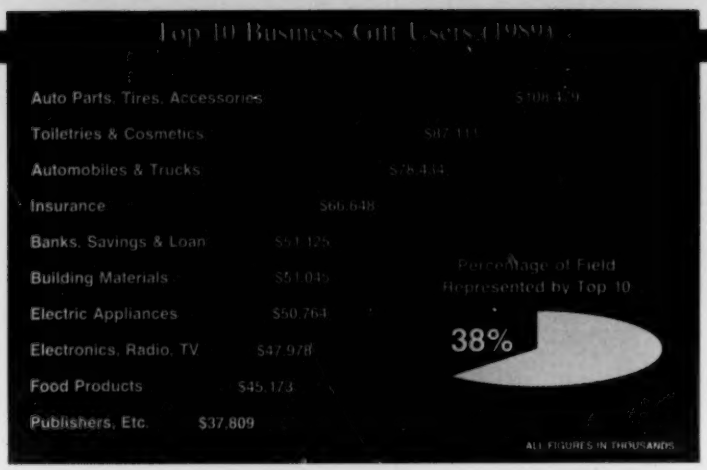
Only two industries showed increases in gift buying that ran well ahead of the average: food manufacturers, up 8.1 percent, and insurance companies, up 11.9 percent. Retailers were also in a gift-buying mood, with a 7.0 percent rise over last year, and distributors and wholesalers expanded gift budgets by 13.1 percent. Seven industries reduced their gift spending.

Here is the overall business gift trend reported this year:

Apparel	+ 3.6%
Auto parts, tires & accessories	+ 6.1%
Automobiles & trucks	+ 5.2%
Banks & savings and loans	+ 3.6%
Beer, ale & soft drinks	+ 5.4%
Building materials	+ 2.0%
Detergents & cleansers	+ 4.5%
Electric appliances	+ 2.4%
Electrical & lighting equipment	+ 1.3%
Electronics, radio & TV	- 2.3%
Farm equipment	- 5.1%
Feed, fertilizer & farm supplies	+ 6.1%
Food products	+ 8.1%
Furniture & floor coverings	- 3.4%
Hardware	- 4.1%
Heating & air-conditioning	+ 3.1%
Housewares & home furnishings	- 6.2%
Industrial chemicals	+ 1.2%
Insurance	+11.9%
Machinery & supplies	+ 6.3%
Office equipment	+ 3.8%
Paints & varnishes	- 3.0%
Paper products & packaging	+ 1.4%
Petroleum products	+ 1.8%
Pharmaceuticals	- 4.7%
Public utilities	+ 2.6%
Publishers, printers, broadcasters	+ 5.0%
Sporting goods & toys	+ 1.0%
Toiletries & cosmetics	+ 5.4%
Distributors & wholesalers	+13.1%
Retailers	+ 7.0%

A trend toward more sales-oriented use of business gifts—with a purpose much better defined than traditional "thanks" and "good will"—continued this year. In such situations, users insist that the gift be of modest value. In 63 percent of cases, it has a company imprint for reminder value, the hallmark of the advertising specialty.

About 54 percent of surveyed executives said their gifts are usually given by salespeople, often as door-openers or as simple occasion-makers for an extra sales call. In 31 percent of cases, an executive presents the gifts.



Not too many years ago, 85 to 90 percent of business gifts were given at Christmas time. That is still the primary occasion—but now for only 70 percent of users. The rest of the gift-giving takes place on controlled sales-related occasions: a routine sales call, closing of a sale, plant or office visit, company customer seminar, product introduction and other times when competition with many other business gifts in the same period is not a factor.

Employee Awards

Explosive growth marks this category, as more and more companies look to enhance productivity.

The use of employee incentive awards exploded this year, according to **Incentive** surveys. In the first study of such awards last year, the magazine found users spending an average of 8.4 percent more for awards than they had in 1987. That modest rise pales next to the findings of the most recent survey of employee incentive users, which found award programs growing at an 18.9 percent rate.

This year, employee awards also were included in the broader FACTS studies, which question many executives not previously known as employee-award users. In these surveys, about one-fourth of all respondents gave figures on expenditures for non-sales employee incentives—and their year-to-year increase reached 44 percent. Clearly, many new companies have joined the trend toward productivity-enhancing incentives.

Office productivity is the most common focus of these programs, according to 49 percent of respondents. About 40 percent apply incentives to plant productivity. Other major objectives are quality control (29 percent), suggestions (28 percent) and safety (27 percent). Lesser emphasis is given to length of service awards (16 percent) and attendance (15 percent). Other objectives not specified are targeted by 41 percent. As the percentage total shows, the average company uses employee awards to do about two and one-half different jobs.

Sixty-four percent of respondents conduct year-round award programs for employees, and 46 percent of the eligible people earn awards. The cost of employee awards averages $346 among these companies, although the median is a much lower $75.

By frequency of mention, tangible awards were given in 45 percent of cases: selected merchandise items, 20 percent; merchandise catalogue choices, 11 percent, and plaques, 14 percent. Cash was awarded by 26 percent. Travel awards accounted for 10 percent, and honorary titles are given to 4 percent. The remaining 15 percent for "other" awards included

Sixty-four percent of survey respondents conduct year-round award programs for employees, and 46 percent of eligible workers win an award.

company dinners, entertainment, time off, shares of company stock and the like.

Office workers are the primary targets for major productivity efforts among these users. On a frequency basis, office employees are the subject of 41 percent of programs by the reporting companies. Production workers are targeted by 30 percent and sales-support personnel by 29 percent.

The average survey report showed that 57 percent of a company's employees are affected by the incentive plan. More growth in incentive efforts may be seen in the years ahead as new groups of employees are brought into these motivational campaigns. □

MANUFACTURING INDUSTRIES

	EXPENDITURES 1989		EXPENDITURES 1988	
■ APPAREL	**$62,447,000**	**+ 3.4%**	**$60,399,000**	**+ 6.2%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 19,211,000	+13.1%	$ 16,986,000	+16.5%
travel	$ 4,907,000	+11.8%	$ 4,389,000	+15.4%
Dealer merchandise	$ 8,127,000	+ 2.2%	$ 7,952,000	- 2.1%
travel	$ 471,000	+14.0%	$ 413,000	- 3.7%
▶ BUSINESS GIFTS	$ 11,297,000	+ 3.6%	$ 10,904,000	+ 5.6%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 8,586,000	- 6.2%	$ 9,154,000	+ 7.1%
Other premiums	$ 9,848,000	- 7.1%	$ 10,601,000	- 4.1%
■ AUTO PARTS, TIRES, ACCESSORIES	**$895,326,000**	**+ 4.4%**	**$857,892,000**	**+14.1%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 237,135,000	+ 1.0%	$ 234,787,000	+13.2%
travel	$ 107,064,000	+ 4.4%	$ 102,552,000	+14.0%
Dealer merchandise	$ 255,328,000	+ 3.3%	$ 247,171,000	+26.9%
travel	$ 81,726,000	+11.0%	$ 73,627,000	+14.5%
▶ BUSINESS GIFTS	$ 108,479,000	+ 6.1%	$ 102,242,000	+ 0.6%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 80,412,000	+ 8.6%	$ 74,044,000	+ 5.4%
Other premiums	$ 25,182,000	+ 7.3%	$ 23,469,000	+ 0.8%
■ AUTOMOBILES & TRUCKS	**$505,331,000**	**+13.6%**	**$444,780,000**	**+ 9.2%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 209,086,000	+18.8%	$ 175,998,000	+15.9%
travel	$ 31,099,000	+18.1%	$ 26,333,000	+ 1.4%
Dealer merchandise	$ 55,468,000	+16.6%	$ 47,571,000	+ 0.6%
travel	$ 128,568,000	+ 9.2%	$ 117,736,000	+ 5.9%
▶ BUSINESS GIFTS	$ 78,434,000	+ 5.2%	$ 74,557,000	+ 9.3%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 1,181,000	- 4.0%	$ 1,230,000	- 0.9%
Other premiums	$ 1,495,000	+10.3%	$ 1,355,000	- 2.2%
■ BEER, ALE & SOFT DRINKS	**$256,166,000**	**+ 6.3%**	**$241,017,000**	**+10.0%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 65,025,000	+ 5.6%	$ 61,577,000	+21.7%
travel	$ 13,157,000	+ 6.5%	$ 12,354,000	+ 0.9%
Dealer merchandise	$ 28,375,000	+ 9.5%	$ 25,913,000	+ 2.4%
travel	$ 6,383,000	+ 7.5%	$ 5,938,000	+ 3.3%
▶ BUSINESS GIFTS	$ 11,279,000	+ 5.4%	$ 10,701,000	+12.5%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 82,552,000	+ 8.4%	$ 76,155,000	+ 9.2%
Other premiums	$ 49,395,000	+ 2.1%	$ 48,379,000	+ 5.1%

	EXPENDITURES 1989		EXPENDITURES 1988	
■ BUILDING MATERIALS	**$371,000,000**	**+ 9.7%**	**$338,162000**	**+ 6.1%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 144,309,000	+18.3%	$ 121,986,000	+ 5.4%
travel	$ 39,636,000	+12.5%	$ 35,232,000	+ 2.3%
Dealer merchandise	$ 64,637,000	+ 2.1%	$ 63,308,000	+ 7.2%
travel	$ 32,376,000	+ 6.4%	$ 30,429,000	+ 4.5%
▶ BUSINESS GIFTS	$ 51,045,000	+ 2.0%	$ 50,044,000	+ 9.1%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 16,033,000	+ 4.7%	$ 15,313,000	+15.8%
Other premiums	$ 22,964,000	+ 5.1%	$ 21,850,000	+ 3.4%
■ DETERGENTS & CLEANSERS	**$237,959,000**	**+ 6.0%**	**$224,550,000**	**+ 5.1%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 70,255,000	+ 6.4%	$ 66,029,000	+ 2.5%
travel	$ 3,003,000	+ 1.2%	$ 2,967,000	+ 1.4%
Dealer merchandise	$ 33,577,000	+ 9.4%	$ 30,692,000	+ 2.9%
travel	$ 822,000	+ 7.3%	$ 766,000	+27.4%
▶ BUSINESS GIFTS	$ 10,061,000	+ 4.5%	$ 9,628,000	+13.9%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 78,319,000	+ 5.5%	$ 74,236,000	+ 7.1%
Other premiums	$ 41,922,000	+ 4.2%	$ 40,232,000	+ 5.3%
■ ELECTRIC APPLIANCES	**$227,363,000**	**+ 6.1%**	**$214,384,000**	**+ 3.2%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 33,982,000	+ 5.5%	$ 32,210,000	+ 6.4%
travel	$ 13,329,000	+ 2.2%	$ 13,042,000	- 4.2%
Dealer merchandise	$ 33,685,000	+ 4.1%	$ 32,358,000	+ 3.9%
travel	$ 57,737,000	+12.2%	$ 51,459,000	+ 7.1%
▶ BUSINESS GIFTS	$ 50,764,000	+ 2.4%	$ 49,574,000	+ 5.0%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 20,081,000	+ 5.2%	$ 19,088,000	- 8.7%
Other premiums	$ 17,785,000	+ 6.8%	$ 16,653,000	+ 1.2%
■ ELECTRICAL & LIGHTING EQUIPMENT	**$131,159,000**	**+ 3.5%**	**$126,769,000**	**- 0.4%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 22,476,000	+ 4.2%	$ 21,570,000	+ 7.0%
travel	$ 9,024,000	+ 5.4%	$ 8,562,000	- 8.4%
Dealer merchandise	$ 40,894,000	+ 6.6%	$ 38,362,000	- 9.2%
travel	$ 15,866,000	+ 6.2%	$ 14,940,000	+10.0%
▶ BUSINESS GIFTS	$ 29,922,000	+ 1.3%	$ 29,538,000	+ 3.2%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 5,296,000	- 8.1%	$ 5,763,000	+ 2.4%
Other premiums	$ 7,681,000	- 4.4%	$ 8,034,000	+ 4.1%
■ ELECTRONICS, RADIO & TV	**$499,504,000**	**+ 4.8%**	**$476,813,000**	**+ 3.3%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 191,289,000	+ 6.5%	$ 179,614,000	+19.6%
travel	$ 54,597,000	+ 6.4%	$ 51,313,000	- 7.7%
Dealer merchandise	$ 46,152,000	- 3.0%	$ 47,579,000	- 9.8%
travel	$ 112,827,000	+ 8.5%	$ 103,988,000	- 5.1%
▶ BUSINESS GIFTS	$ 47,978,000	- 2.3%	$ 49,107,000	- 0.5%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 16,275,000	+ 7.8%	$ 15,097,000	-11.1%
Other premiums	$ 30,386,000	+ 0.9%	$ 30,115,000	+10.4%

	EXPENDITURES 1989		EXPENDITURES 1988	
■ FARM EQUIPMENT	**$217,253,000**	**+ 0.4%**	**$216,467,000**	**+ 7.1%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 28,077,000	+ 4.5%	$ 26,868,000	+ 2.2%
travel	$ 30,665,000	+ 8.6%	$ 28,237,000	+11.0%
Dealer merchandise	$ 70,523,000	- 3.1%	$ 72,779,000	+ 0.2%
travel	$ 66,229,000	+ 0.8%	$ 65,703,000	+17.2%
▶ BUSINESS GIFTS	$ 13,173,000	- 5.1%	$ 13,881,000	+ 5.9%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 4,081,000	- 7.1%	$ 4,393,000	+ 4.2%
Other premiums	$ 4,505,000	- 2.2%	$ 4,606,000	+ 6.7%
■ FEED, FERTILIZER & FARM SUPPLIES	**$224,382,000**	**+ 15.0%**	**$195,182,000**	**- 0.4%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 41,810,000	+16.5%	$ 35,888,000	+ 5.1%
travel	$ 16,892,000	+14.2%	$ 14,792,000	- 9.5%
Dealer merchandise	$ 52,759,000	+20.6%	$ 43,747,000	- 4.7%
travel	$ 29,458,000	+17.1%	$ 25,156,000	+ 3.3%
▶ BUSINESS GIFTS	$ 13,967,000	+ 6.1%	$ 13,164,000	- 1.8%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 18,819,000	+ 3.1%	$ 18,253,000	- 1.2%
Other premiums	$ 50,677,000	+14.7%	$ 44,182,000	+ 2.0%
■ FOOD PRODUCTS	**$1,629,594,000**	**+ 4.6%**	**$1,557,350,000**	**+ 3.9%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 219,287,000	+14.9%	$ 190,850,000	+10.3%
travel	$ 35,681,000	+ 1.1%	$ 35,293,000	+14.5%
Dealer merchandise	$ 124,671,000	- 3.3%	$ 128,926,000	+ 6.8%
travel	$ 11,833,000	- 3.1%	$ 12,212,000	+17.8%
▶ BUSINESS GIFTS	$ 45,173,000	+ 8.1%	$ 41,788,000	+ 0.3%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 652,100,000	+ 3.7%	$ 625,216,000	+ 3.2%
Other premiums	$ 540,849,000	+ 3.4%	$ 523,065,000	+ 1.2%
■ FURNITURE & FLOOR COVERINGS	**$95,323,000**	**+ 1.2%**	**$94,193,000**	**+ 7.0%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 14,298,000	- 5.2%	$ 15,082,000	+ 4.2%
travel	$ 4,087,000	+ 3.9%	$ 3,934,000	+ 0.6%
Dealer merchandise	$ 40,663,000	+ 1.4%	$ 40,102,000	+12.9%
travel	$ 19,373,000	+ 7.0%	$ 18,106,000	+ 3.5%
▶ BUSINESS GIFTS	$ 7,259,000	- 3.4%	$ 7,514,000	+ 3.1%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 5,635,000	+ 2.7%	$ 5,487,000	+ 1.2%
Other premiums	$ 4,008,000	+ 1.0%	$ 3,968,000	+ 0.9%
■ HARDWARE	**$35,625,000**	**+ 0.8%**	**$35,341,000**	**+ 11.4%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 10,457,000	+ 3.2%	$ 10,133,000	+28.2%
travel	$ 2,757,000	+ 2.8%	$ 2,682,000	+22.4%
Dealer merchandise	$ 9,579,000	+ 3.1%	$ 9,291,000	- 1.3%
travel	$ 1,149,000	+ 3.4%	$ 1,109,000	+11.1%
▶ BUSINESS GIFTS	$ 2,231,000	- 4.1%	$ 2,326,000	+ 4.5%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 4,875,000	- 2.8%	$ 5,015,000	+ 2.9%
Other premiums	$ 4,579,000	- 4.3%	$ 4,785,000	+16.2%

	EXPENDITURES 1989		EXPENDITURES 1988	
■ HEATING & AIR CONDITIONING	**$311,309,000**	**+ 5.2%**	**$295,833,000**	**+ 7.0%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 47,200,000	+14.8%	$ 41,115,000	+17.6%
travel	$ 53,793,000	+ 9.4%	$ 49,171,000	- 0.8%
Dealer merchandise	$ 105,964,000	+ 1.8%	$ 104,090,000	+18.0%
travel	$ 55,386,000	+ 2.7%	$ 53,930,000	- 5.9%
▶ BUSINESS GIFTS	$ 28,689,000	+ 3.1%	$ 27,826,000	+ 3.3%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 6,969,000	+ 2.4%	$ 6,806,000	+ 1.2%
Other premiums	$ 13,308,000	+ 3.2%	$ 12,895,000	+ 0.2%
■ HOUSEWARES & HOME FURNISHINGS	**$209,235,000**	**- 1.0%**	**$211,258,000**	**+ 4.4%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 54,057,000	+ 4.2%	$ 51,878,000	+ 0.1%
travel	$ 9,509,000	+ 5.3%	$ 9,030,000	+17.3%
Dealer merchandise	$ 25,783,000	+ 1.7%	$ 25,352,000	+ 8.0%
travel	$ 7,420,000	+ 2.2%	$ 7,260,000	+10.6%
▶ BUSINESS GIFTS	$ 18,160,000	- 6.2%	$ 19,360,000	+10.7%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 6,065,000	- 4.7%	$ 6,364,000	+ 2.0%
Other premiums	$ 88,241,000	- 4.1%	$ 92,014,000	+ 3.4%
■ INDUSTRIAL CHEMICALS	**$119,139,000**	**+ 6.3%**	**$112,109,000**	**+ 2.8%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 26,671,000	+20.9%	$ 22,060,000	+15.6%
travel	$ 8,520,000	+23.3%	$ 6,910,000	+ 7.5%
Dealer merchandise	$ 37,285,000	- 2.0%	$ 38,046,000	- 1.1%
travel	$ 7,654,000	+ 1.4%	$ 7,548,000	+ 2.6%
▶ BUSINESS GIFTS	$ 19,079,000	+ 1.2%	$ 18,853,000	- 2.1%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 4,804,000	+ 3.1%	$ 4,660,000	+ 2.1%
Other premiums	$ 15,126,000	+ 7.8%	$ 14,032,000	+ 1.0%
■ MACHINERY & SUPPLIES	**$174,394,000**	**+11.0%**	**$157,118,000**	**+ 9.7%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 77,708,000	+15.3%	$ 67,396,000	+13.9%
travel	$ 34,916,000	+13.0%	$ 30,899,000	+10.2%
Dealer merchandise	$ 9,967,000	+12.2%	$ 8,883,000	+ 5.8%
travel	$ 14,236,000	+ 2.9%	$ 13,835,000	+16.0%
▶ BUSINESS GIFTS	$ 25,236,000	+ 6.3%	$ 23,740,000	+ 2.4%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 6,592,000	- 3.8%	$ 6,852,000	- 2.5%
Other premiums	$ 5,739,000	+ 4.1%	$ 5,513,000	+ 1.8%
■ OFFICE EQUIPMENT	**$320,856,000**	**+11.5%**	**$287,788,000**	**+ 3.1%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 64,676,000	+15.2%	$ 56,142,000	+ 0.3%
travel	$ 79,973,000	+21.7%	$ 65,713,000	+ 2.5%
Dealer merchandise	$ 36,420,000	+ 9.4%	$ 33,291,000	+ 5.6%
travel	$ 20,183,000	- 1.1%	$ 20,407,000	+ 3.1%
▶ BUSINESS GIFTS	$ 32,782,000	+ 3.8%	$ 31,582,000	+ 6.0%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 11,290,000	+ 4.1%	$ 10,845,000	+ 2.4%
Other premiums	$ 75,532,000	+ 8.2%	$ 69,808,000	+ 3.6%

	EXPENDITURES 1989		EXPENDITURES 1988	
■ PAINTS & VARNISHES	**$70,382,000**	**+ 0.1%**	**$70,476,000**	**+ 9.0%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 16,372,000	+ 2.9%	$ 15,911,000	+ 2.5%
travel	$ 5,946,000	+ 3.4%	$ 5,751,000	+16.4%
Dealer merchandise	$ 14,238,000	+ 2.6%	$ 13,877,000	+11.4%
travel	$ 11,803,000	+ 2.4%	$ 11,526,000	+10.1%
▶ BUSINESS GIFTS	$ 2,604,000	- 3.0%	$ 2,685,000	+ 4.8%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 13,576,000	- 7.1%	$ 14,614,000	+12.4%
Other premiums	$ 5,843,000	- 4.4%	$ 6,112,000	+ 7.1%
■ PAPER PRODUCTS & PACKAGING	**$89,353,000**	**+ 5.6%**	**$84,606,000**	**+ 4.4%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 11,724,000	+ 7.8%	$ 10,876,000	+ 1.5%
travel	$ 10,634,000	+ 3.5%	$ 10,274,000	+ 0.4%
Dealer merchandise	$ 9,975,000	+ 3.4%	$ 9,647,000	- 6.5%
travel	$ 5,435,000	+ 8.6%	$ 5,005,000	+ 1.1%
▶ BUSINESS GIFTS	$ 12,197,000	+ 1.4%	$ 12,029,000	+ 0.2%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 21,784,000	+ 7.6%	$ 20,245,000	+10.6%
Other premiums	$ 17,604,000	+ 6.5%	$ 16,530,000	+13.6%
■ PETROLEUM PRODUCTS	**$310,007,000**	**+ 5.1%**	**$294,990,000**	**+ 2.2%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 65,808,000	+ 6.0%	$ 62,093,000	+ 2.9%
travel	$ 16,380,000	+ 1.9%	$ 16,075,000	+ 0.2%
Dealer merchandise	$ 85,799,000	+ 4.6%	$ 82,026,000	+ 0.8%
travel	$ 15,133,000	+ 5.7%	$ 14,317,000	- 0.4%
▶ BUSINESS GIFTS	$ 17,020,000	+ 1.8%	$ 16,719,000	+ 6.7%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 41,845,000	+ 4.1%	$ 40,197,000	+ 4.5%
Other premiums	$ 68,022,000	+ 7.0%	$ 63,572,000	+ 2.1%
■ PHARMACEUTICALS	**$201,877,000**	**+ 5.3%**	**$191,776,000**	**+ 5.5%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 62,784,000	+ 7.3%	$ 58,513,000	+11.0%
travel	$ 18,722,000	+15.2%	$ 16,252,000	+ 4.9%
Dealer merchandise	$ 25,840,000	+ 6.2%	$ 24,331,000	+ 0.3%
travel	$ 10,404,000	+ 4.0%	$ 10,004,000	+ 1.7%
▶ BUSINESS GIFTS	$ 32,727,000	- 4.7%	$ 34,341,000	+ 4.1%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 25,829,000	+ 7.6%	$ 24,005,000	+ 7.1%
Other premiums	$ 25,571,000	+ 5.1%	$ 24,330,000	+ 0.8%
■ SPORTING GOODS & TOYS	**$55,750,000**	**- 0.1%**	**$55,817,000**	**+ 5.1%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 9,873,000	+ 3.8%	$ 9,512,000	+ 7.4%
travel	$ 6,900,000	+ 2.8%	$ 6,712,000	+ 2.1%
Dealer merchandise	$ 10,773,000	+ 1.1%	$ 10,656,000	+ 9.3%
travel	$ 4,742,000	+ 3.1%	$ 4,599,000	+ 1.0%
▶ BUSINESS GIFTS	$ 2,818,000	+ 1.0%	$ 2,790,000	- 0.4%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 10,057,000	- 4.4%	$ 10,520,000	+ 4.5%
Other premiums	$ 10,587,000	- 4.0%	$ 11,028,000	+ 5.2%

	EXPENDITURES 1989		EXPENDITURES 1988	
■ TOILETRIES & COSMETICS	**$1,074,574,000**	**+11.8%**	**$961,511,000**	**+10.4%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 350,140,000	+15.4%	$ 303,414,000	+ 9.2%
travel	$ 42,252,000	+ 8.7%	$ 38,870,000	+ 5.2%
Dealer merchandise	$ 109,618,000	+14.7%	$ 95,569,000	+ 6.6%
travel	$ 18,384,000	+14.1%	$ 16,112,000	+ 9.4%
▶ BUSINESS GIFTS	$ 87,111,000	+ 5.4%	$ 82,648,000	+12.9%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 227,346,000	+10.7%	$ 205,371,000	+13.3%
Other premiums	$ 239,723,000	+ 9.2%	$ 219,527,000	+11.2%
■ MISCELLANEOUS MANUFACTURERS	**$902,297,000**	**+11.2%**	**$811,278,000**	**+ 5.7%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 150,968,000	+12.3%	$ 134,433,000	+ 5.8%
travel	$ 41,263,000	+14.9%	$ 35,912,000	+ 8.2%
Dealer merchandise	$ 133,725,000	+ 7.6%	$ 124,280,000	+ 5.3%
travel	$ 30,851,000	+11.0%	$ 27,794,000	+12.4%
▶ BUSINESS GIFTS	$ 86,086,000	+ 4.0%	$ 82,775,000	+10.1%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 161,009,000	+11.2%	$ 144,792,000	+ 4.9%
Other premiums	$ 298,395,000	+14.2%	$ 261,292,000	+ 4.1%

SERVICE INDUSTRIES

	EXPENDITURES 1989		EXPENDITURES 1988	
■ BANKS AND SAVINGS & LOAN	**$219,240,000**	**+ 4.1%**	**$210,674,000**	**+ 2.6%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 39,709,000	+ 1.2%	$ 39,238,000	+ 2.3%
travel	$ 2,829,000	+10.7%	$ 2,556,000	+ 7.4%
Dealer merchandise	$ 2,252,000	+ 3.3%	$ 2,180,000	+ 4.9%
travel	$ 373,000	+ 1.2%	$ 369,000	+ 5.2%
▶ BUSINESS GIFTS	$ 51,125,000	+ 3.6%	$ 49,348,000	- 0.7%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 20,018,000	+ 4.1%	$ 19,230,000	+ 2.3%
Other premiums	$102,934,000	+ 5.3%	$ 97,753,000	+ 4.4%
■ DISTRIBUTORS & WHOLESALERS	**$1,499,270,000**	**+ 9.7%**	**$1,366,746,000**	**+ 2.6%**
▶ TRADE INCENTIVES				
Sales force merchandise	$ 433,353,000	+ 9.1%	$ 397,207,000	- 1.1%
travel	$ 34,849,000	+ 7.6%	$ 32,388,000	+ 8.0%
Dealer merchandise	$ 166,109,000	+10.8%	$ 149,918,000	+ 0.5%
travel	$ 23,457,000	+ 7.5%	$ 21,820,000	+ 0.8%
▶ BUSINESS GIFTS	$ 269,746,000	+13.1%	$ 238,502,000	+ 2.4%
▶ CONSUMER PREMIUMS				
Mail-in promotions	$ 328,422,000	+ 8.6%	$ 302,433,000	+ 1.9%
Other premiums	$ 243,334,000	+ 8.4%	$ 224,478,000	+ 2.6%

	EXPENDITURES 1989		EXPENDITURES 1988	
■ INSURANCE	**$729,911,000**	**+ 6.6%**	**$684,648,000**	**+ 10.0%**
► TRADE INCENTIVES				
Sales force merchandise	$ 256,024,000	+ 7.9%	$ 237,279,000	+12.9%
travel	$ 224,944,000	+ 8.4%	$ 207,513,000	+ 8.2%
Dealer merchandise	$ 14,848,000	+ 0.7%	$ 14,745,000	+10.2%
travel	$ 74,739,000	- 4.4%	$ 78,179,000	+20.2%
► BUSINESS GIFTS	$ 66,648,000	+11.9%	$ 59,560,000	- 2.5%
► CONSUMER PREMIUMS				
Mail-in promotions	$ 83,050,000	+ 7.1%	$ 77,544,000	+ 6.9%
Other premiums	$ 66,648,000	+11.9%	$ 8,828,000	+ 3.8%
■ PUBLIC UTILITIES	**$28,305,000**	**+ 4.4%**	**$27,113,000**	**+ 4.3%**
► TRADE INCENTIVES				
Sales force merchandise	$ 7,362,000	+ 5.8%	$ 6,958,000	+ 4.4%
travel	$ 3,463,000	+ 7.3%	$ 3,227,000	+ 7.5%
Dealer merchandise	$ 3,299,000	+ 5.0%	$ 3,142,000	+ 0.6%
travel	$ 373,000	+ 1.7%	$ 367,000	+ 2.8%
► BUSINESS GIFTS	$ 2,759,000	+ 2.6%	$ 2,689,000	+ 4.1%
► CONSUMER PREMIUMS				
Mail-in promotions	$ 5,580,000	+ 1.8%	$ 5,481,000	+ 3.6%
Other premiums	$ 5,469,000	+ 4.2%	$ 5,249,000	+ 5.4%
■ PUBLISHERS, PRINTERS & BROADCASTERS	**$305,489,000**	**+ 6.0%**	**$288,097,000**	**+ 4.8%**
► TRADE INCENTIVES				
Sales force merchandise	$ 107,265,000	+ 5.9%	$ 101,289,000	+ 4.4%
travel	$ 21,994,000	+10.8%	$ 19,850,000	+10.8%
Dealer merchandise	$ 14,188,000	+10.5%	$ 12,840,000	- 2.5%
travel	$ 5,943,000	+ 9.4%	$ 5,432,000	- 1.8%
► BUSINESS GIFTS	$ 37,809,000	+ 5.0%	$ 36,009,000	+ 4.2%
► CONSUMER PREMIUMS				
Mail-in promotions	$ 80,824,000	+ 5.3%	$ 76,756,000	+ 5.2%
Other premiums	$ 37,466,000	+ 4.3%	$ 35,921,000	+ 6.3%
■ RETAILERS	**$2,807,083,000**	**+ 8.4%**	**$2,589,189,000**	**+ 3.0%**
► TRADE INCENTIVES				
Sales force merchandise	$ 446,554,000	+ 4.7%	$ 426,508,000	+ 3.8%
travel	$ 311,869,000	+15.4%	$ 270,250,000	+ 0.3%
Dealer merchandise	$ 53,646,000	+ 8.8%	$ 49,307,000	+ 2.1%
travel	$ 41,237,000	+ 7.0%	$ 38,539,000	+ 1.4%
► BUSINESS GIFTS	$ 217,956,000	+ 3.9%	$ 209,775,000	+ 8.3%
► CONSUMER PREMIUMS				
Mail-in promotions	$ 206,349,000	+ 4.2%	$ 198,032,000	+ 6.5%
Other premiums	$1,529,472,000	+ 9.5%	$1,396,778,000	+ 2.2%
■ MISCELLANEOUS SERVICES	**$1,015,479,000**	**+ 8.1%**	**$939,373,000**	**+ 7.2%**
► TRADE INCENTIVES				
Sales force merchandise	$ 289,702,000	+ 9.2%	$ 265,295,000	+ 7.2%
travel	$ 110,925,000	+10.1%	$ 100,749,000	+ 3.8%
Dealer merchandise	$ 144,637,000	+10.9%	$ 130,421,000	+ 7.8%
travel	$ 82,455,000	+ 9.9%	$ 75,027,000	+10.5%
► BUSINESS GIFTS	$ 143,638,000	+ 6.3%	$ 135,125,000	+ 0.5%
► CONSUMER PREMIUMS				
Mail-in promotions	$ 181,191,000	+ 5.7%	$ 171,420,000	+14.1%
Other premiums	$ 62,931,000	+ 2.6%	$ 61,336,000	+ 5.4%

Do Employee Owners Try Harder?

For Employee Stock Ownership Plans to increase productivity, a piece of paper isn't enough. Worker participation is crucial.

BY REGINA EISMAN

An Employee Stock Ownership Plan can help put an unprofitable company in the black. It can ward off takeover attempts and provide substantial tax breaks. But can it work as a motivational tool, spurring employees to be more productive?

There is evidence to show that the answer is yes—but only if the ESOP is combined with a participative management system that gives the workers a voice in how the company is run.

"There is not an automatic relationship between ownership and labor productivity," says Corey Rosen, executive director of the National Center for Employee Ownership (NCEO), a nonprofit group in Oakland, Calif., that studies ESOP's and sponsors seminars. "Without participative management, it won't work. An ESOP might motivate employees to work harder, but participation motivates them to work more effectively. There's a difference between working hard and working effectively."

Workers will be more effective at their jobs, he notes, if they can discuss their ideas with management and have input into decisions that affect them.

Though experts agree that this interactive approach to management does affect productivity, whether it affects profitability as well is open to debate. A 1989 study written by Robert Ragland, chief tax counsel for the National Chamber Foundation, a Washington-based public policy research organization, states that interactive management does not necessarily make ESOP companies more profitable than they would be without such plans.

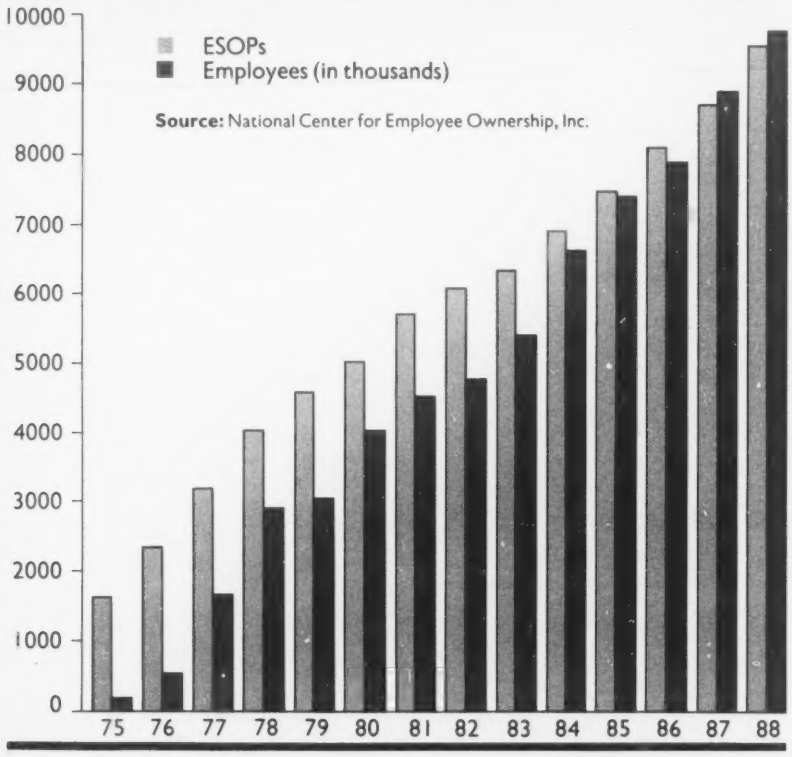
NCEO's research has shown, however, that companies with ESOP's but without participatory management do not grow or grow by a very small percentage, while companies with both elements grow at a rate of 8 to 11 percent per year.

A 1987 report by the U.S. General Accounting Office was not optimistic about ESOP's. The office's research showed insignificant profitability and productivity improvement in companies that started ESOP's. Although it did find that participative management combined with an ESOP improved productivity, it was only by about 3 percent.

Among the ingredients that NCEO says are necessary for successful participatory management in an ESOP:

- Personal commitment of top management to the new system;
- Written corporate values that outline the company's commitment to employee ownership;
- A policy of allowing employees

GROWTH OF EMPLOYEE OWNERSHIP PLANS 1975-1988



One study shows that ESOP's combined with team management can improve company productivity by 8 to 11 percent; another study shows only a 3 percent increase.

who have the most expertise in a given area to make the decisions about it;

- A training program to give employees more decision-making power, and
- Sharing of information between management and employees.

In an ESOP, the company sets up a trust fund for employees and contributes shares or cash to buy shares. The ESOP also can borrow money from the company or an outside lender, buy shares with the money and receive contributions from the company to repay the loan. Or the company can borrow money from and reloan it to the ESOP. These borrowing methods provide the company with tax advantages.

Most companies contribute 8 to 15 percent of each employee's salary to his or her plan, and employees cash in their shares when they leave the company or retire, although there are exceptions. At Avis Inc., for example, employees must wait seven years to collect if they leave the firm prior to retirement.

The number of ESOP's in the United States has been growing at a rate of 600 to 800 additional plans annually since 1974 when the idea first took hold, according to NCEO. About 10,000 companies with a total of 10 million employees have ESOP's. Though no figures are available, the failure rate for ESOP companies compares favorably with that of non-ESOP corporations, according to Martin Staubus, an associate with the Washington, D.C.-based ESOP Association.

Management consultants who have worked with ESOP companies agree that participation must be present in order for productivity to improve, but they also point to several other important considerations:

- Is the company minority- or majority-owned? Employees can own anywhere from 1 to 100 percent of the company. "If the percentage of ownership is small, the productivity benefit is diminished," notes David A. Spieler, senior consultant at Arthur D. Little, Cambridge, Mass. "Employees won't really feel that they own the company."

"The negative thing about small ownership is there's not a tremendous risk to the employees if the company doesn't perform well," says Ted Buyniski, senior consultant at Sibson & Company, Princeton, N.J. NCEO's survey of 2,700 employees in 37 ESOP companies shows that their commitment to the company, job satisfaction and effort on the job increase with the amount of stock they own.

- Do the employees have voting rights? In public companies, which

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make up 10 percent of ESOP companies, employees must be given full voting rights. Privately held companies, however, are not required by law to allow ESOP members to vote their shares, except on certain major issues like sales and mergers. When employees can vote, they feel more a part of the organization, consultants say.

• Who are the trustees? The ESOP must be overseen by one or more trustees. Often, trustees are respected people who have been with the firm a long time—the "elder statesmen," says Spieler. These employees usually are senior management people, "so they're in a difficult position, being management and also representing the employee-owners," says Spieler. This is especially true if the trustees are the only ones allowed to vote. The NCEO believes that appointing an outsider as trustee is the wisest course.

• Why was the ESOP created? Some companies place a large piece of stock in employee hands as a takeover defense, as United Airlines tried to do. Others, like the Hospital Corporation of America, spin off some of their poorly performing companies and make them into an ESOP for the employees, simply to get rid of the companies, Buyniski says. "These plans aren't motivational, so they won't be too productive for the company," he comments.

"An ESOP might motivate employees to work harder, but participation motivates them to work more effectively."

In an Oct. 9 Business Week column on United Airlines, economist Robert Kuttner wrote: "[The pilots] are not buying the company because they are eager to become worker/entrepreneurs. They are buying it only to head off...a hostile takeover." He noted that ideally, an ESOP is "not a last resort but a deliberate aspiration."

But an official of an organization that educates companies on the benefits of ESOP's disagrees. "The question is, 'Is an ESOP good even if it's started for the wrong reasons?' " says Chuck Myers, secretary of the Foundation for Enterprise Development, La Jolla, Calif. "It can be." The Weirton Steel Corporation, which experts point to as an excellent example of an ESOP company with participatory management, created its plan because its parent company threatened to close the then-unprofitable firm.

Not everyone believes in the power of the ESOP to motivate. Ed Graskamp, a consultant at Chicago's Frederic W. Cook & Company, wonders, "Is it that ESOP's cause better performance or that better-performing companies are likely to put these programs in place?" Says Alberto Santos, partner in Chicago-based Hewitt Associates: "In general, I don't think ESOP's impact motivation, either because the percentage of ownership is too small

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Some analysts note that the cost of creating an ESOP might lead a company to eliminate other employee benefits and incentives.

or because the corporate culture isn't right. Employees don't get to vote on important things."

Another consultant, Dennis Bunder, managing director of New York's Handy & Associates, says: "I'm skeptical of ESOP's. They've been used so often as a transactional tool when other alternatives failed, rather than to motivate employees." In addition, other employee benefits, like retirement plans and salary increases, often are taken away in return for the ESOP, Bunder says.

Buyniski notes that the cost of creating an ESOP—estimated by NCEO at $15,000 to $50,000—in addition to the cost of issuing stock might lead a company to eliminate other employee benefits and incentives. At the Polaroid Corporation, which recently created an ESOP to avoid a takeover, workers took a 5 percent pay cut and gave up the firm's 50 percent matching contribution to the 401(k) plan.

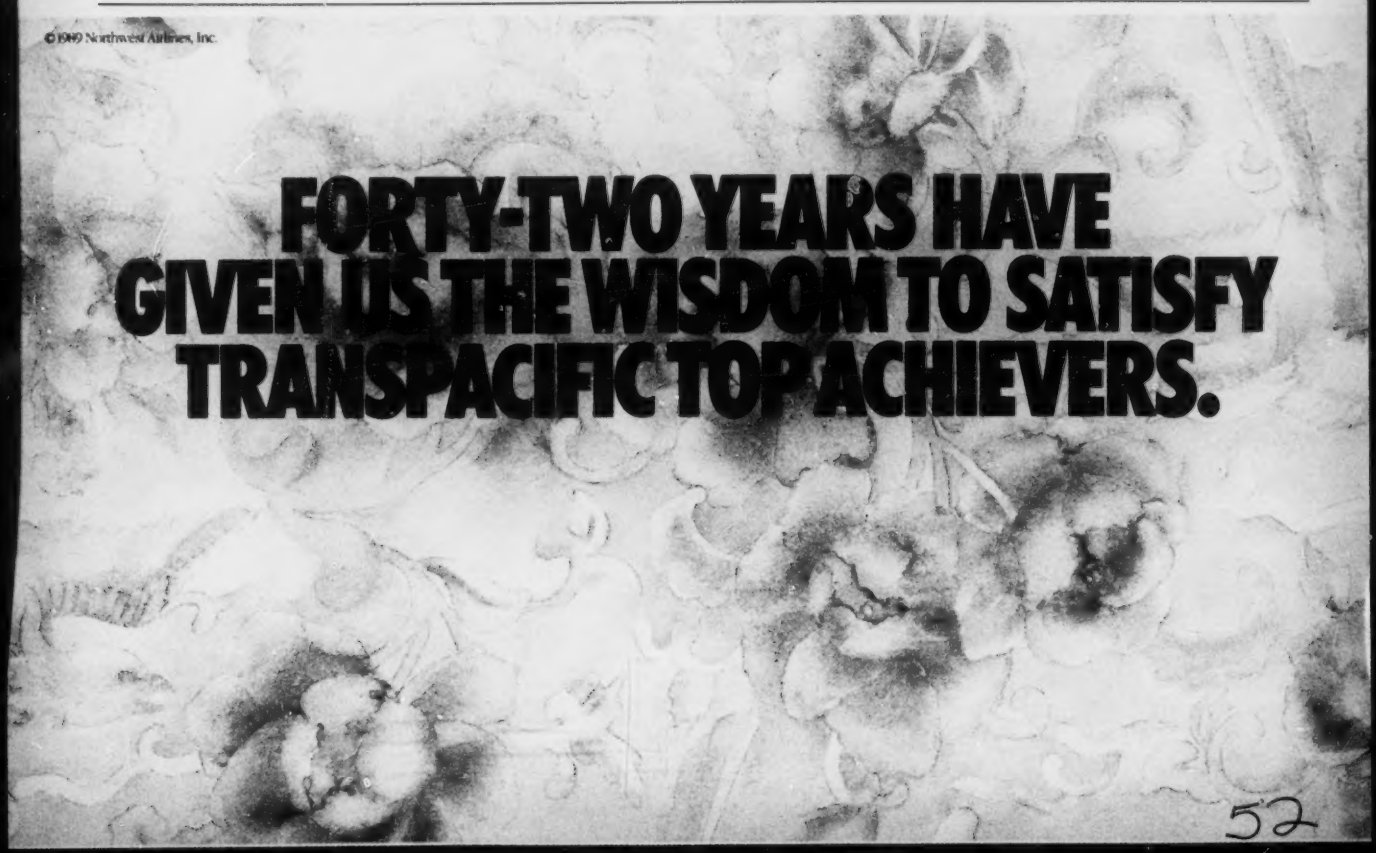
NCEO disputes the contention, stating that employees give up pension plans for ESOP's only 8 percent of the time and salary increases 4 percent of the time. The National Chamber Foundation study found that although ESOP firms are likely to lower employee compensation, the stock contributions more than make up for any reduced salaries.

In interviews with several ESOP companies, both management and employees speak of participation as an important part of their plans' success. Worker involvement has helped the companies save money, thus there is greater wealth for the employees to share.

Weirton Steel in West Virginia created its ESOP in 1984. At the time, Weirton's parent company, Pittsburgh-based National Intergroup, was unhappy that the firm was unprofitable. "They basically said, 'You have to buy the company or we're going to shut it down,' " says Weirton manager of special projects Alan Gould. Since the ESOP, the firm has been the only major steel maker to turn a profit. All of its 8,000 employees participate in the plan, each owning about 3,000 shares of stock.

Gould says the firm's success is not just because of the ESOP but also because of the employee participation groups that were created at the same time as the ESOP. "When you have ownership of the company and ownership of the work process, that's when the payoff comes," he says. There are 100 voluntary groups with a total of 1,000 employees from both labor and management. "The general goal is to improve the work process in their area," Gould says.

Employees interested in joining a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THE TOP TEN

The ten largest[1] ESOP companies that are at least 20 percent majority owned.

Company	Business	Employees
Publix Supermarkets	Supermarkets	60,000
HealthTrust	Hospital management	23,000
Avis Inc.	Rental cars	20,000
Science Applications	Research & development	11,000
EPIC Healthcare	Hospital management	10,000
Charter Medical	Hospital management	9,000
Parsons Corp.	Engineering	8,600
Weirton Steel	Steel manufacturing	8,200
Avondale Shipyards	Shipbuilding	7,500
Dan River Co.	Textiles	7,000

Source: National Center for Employee Ownership, Inc.
[1] based on number of employees

group attend a three-day training class that covers problem solving and collective decision making. Thereafter, groups of about 15 people from the same department have weekly one-hour meetings. If the employees find problems in their departments, they work on solving them.

From 1984 to 1986, Gould says Weirton saved more than $10 million as a result of employee participation group suggestions. (The company has not audited the total savings since then.) One group will save the firm $400,000 a year after redesigning axles used on ladle transfer cars, which transfer molten steel from the furnace to the factory floor. "The employees noticed that there was an abnormally high breakage rate on the axles," Gould says. "They tracked it, gathered data and determined that there was a design flaw."

Co-manager of employee participation groups Anthony Julian says Weirton is not just trying to save money: "We're trying to change the company culture. Doing things based on money alone can be dangerous, because you may end up making the wrong decisions."

In addition to the employee participation groups, Weirton developed ad hoc task forces and statistical process control groups that work on quality improvement. For the past several years, one task force has been working on converting the existing steelmaking process to a less costly yet higher quality process.

Because of the ESOP, the employees took a 20 percent pay cut and a 20 percent cut in benefits. But the annual dividend checks "have softened the cut a lot," notes Gould. In addition, other incentive programs remain in place. These include various productivity recognition programs and a suggestion system that rewards workers with everything from lunch with the company presi-

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"People don't say, 'Okay, the day's over, I'm going home.' On week nights and weekends, our parking lot is one-third full."—a 19-year employee of an ESOP company

dent to a trip to Disney World.

This year, Weirton had an outside firm conduct a survey of employee satisfaction with the ESOP and participation plans. "There was an overwhelming sense of pride in the company," Gould says. "The employees link their success to the company's success." At the same time, there were criticisms about the way certain things are done. Although he declines to be specific, Gould says management is giving the employees responsibility to help work out the problems.

Another ESOP company that uses employee participation groups, the Science Applications International Corporation, was one of the pioneers of the ESOP movement. It became an employee-owned company in 1971, barely two years after it was founded. The 11,000 employees of the La Jolla, Calif., scientific research and development company also have the option of buying additional shares from the company through payroll deduction. A total of 85 percent of the stock is held by employees: 20 percent through the ESOP and 65 percent through direct purchase. In the past 10 years, Science Applications' revenues have increased to $800 million from $100 million. The company says it has been consistently profitable.

Although sharing the wealth is certainly attractive to workers, "employee participation is really what creates the incentive," says senior vice president Chuck Nichols. Science Applications has several employee committees, both ad hoc groups that work on new technology and several permanent committees. These include the technical environment committee, which deals with the work environment; the ethics committee, and the incentives committee, which looks at other company benefits like the retirement plan and health benefits.

"Employees decide what problems they want to address, but management can suggest that they might want to take a look at a problem," Nichols says. Committees meet at least eight times a year. The committee chairpeople also sit in on company board meetings, take notes and report back to their committees.

The most recent issue in which employees were involved was health benefits. Beginning in 1990, the company is making changes in the medical plan due to rising costs. A questionnaire was sent to all employees, asking which changes they would prefer, and several committees used the data to make recommendations to management.

Instead of allocating ESOP shares based on employee salaries, as most companies do, Science Applications

CONTINUED ON PAGE 82

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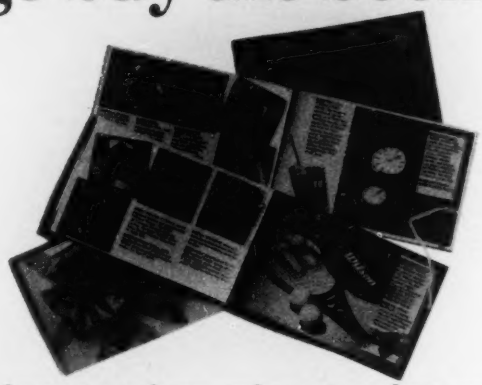

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EMPLOYEE OWNERS

CONTINUED FROM PAGE 54

doles them out based on quarterly employee performance reviews. Managers recommend how much stock an employee should receive.

Because the ESOP was formed so soon after the company started, Science Applications has no basis of comparison for increased productivity. But, says Nichols, "there's no doubt in our minds that the system increases productivity."

Physicist Bill Scott, chairman of the technical environment committee and a 19-year employee, believes that the ESOP motivates him and his co-workers. "People don't say, 'Okay, the day's over, I'm going home,' " he says. "On week nights and weekends, our parking lot is one-third full, and nobody is getting paid overtime."

Perhaps the best-known employee-owned company is the car-rental firm Avis Inc. The company's advertisements play up worker ownership with statements like, "As employee-owners of Avis Inc., we know we always have to be ready when you need us—because our success depends on your satisfaction." The company says the campaign has been its most successful since 1962's "We try harder" pitch.

Garden City, N.Y.-based Avis, which is 100 percent owned by 13,000 workers, created its ESOP in 1987, when the employees bought the firm for $1.75 million from the Wesray Capital Corporation. Its pension and 401(k) savings plans remained in place. "We felt that because Avis is a labor-intensive company, it was the perfect candidate for an ESOP," says vice president of human resources Donald Korn.

Shortly afterward, the company formed more than 100 employee participation groups—at least one in every Avis location, says Korn. The groups meet weekly, and workers also elect co-workers to represent them at monthly district-level meetings where they discuss ideas and review operations with managers.

Ideas that have come out of employee participation groups include reshaping gas island curbs to make it easier for cars to maneuver, causing less wear on tires and saving time; offering non-smoking cars, and solving the problem of car thefts from company parking lots (with a method that can't be disclosed for security reasons).

The firm's pre-tax profit increased to $41 million in 1988 from $14.8 million the prior year. During the first ESOP year, the number of customer complaints decreased to 1.0 per 10,000 transactions from 1.4. In addition, "our operating costs as a percentage of revenue are lower," Korn says. Employee surveys have shown that workers are happy with the new company, he adds.

A 1989 report on Avis issued by the New York State Industrial Cooperation Council, which was formed by New York Governor Mario Cuomo to study economic issues, quoted several Avis workers on their feelings about ownership. Mary Martin-Kovar, a customer service representative and a member of two employee participation groups, said: "I feel that

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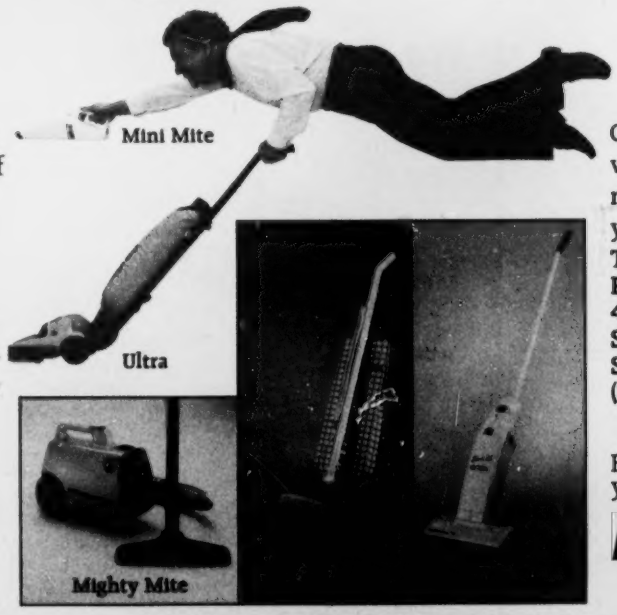

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I'm part of the company and the company's part of me, that any money we make, eventually I will see part of it. It's as if I owned my own candy store." Gerald Peterson, a service agent in the Philadelphia office, said he's noticed "a drastic change" in the work force since the ESOP took effect: "People are checking details, noticing things that they never would have before." He also commends management for being responsive to employee ideas: "Either we get an answer that gets it done, or we're told why it won't work."

Even companies that have ESOP's without employee participation groups note some productivity improvement. Publix Super Markets, for example, has more than 60,000 employees, who own about 7 percent of the firm, with another 10 percent owned through profit-sharing. The 366-store chain, based in Lakeland, Fla., has had its ESOP since 1974. The company has not formally tracked a relationship between the ESOP and productivity. Nevertheless, Publix claims that the ESOP makes the workers more cost conscious. "The workers don't waste supplies as much," says assistant secretary Keith Billups. "Also, they're very customer service oriented."

There have been cases where ESOP's have resulted in discord rather than harmony. Dan River Inc., a Danville, Va., textile company, was bought by its employees in 1983, but it was unprofitable and was sold to another company this year, leaving employees without the pension plan they gave up in return for the ESOP. Company officials would not return phone calls, but NCEO's Rosen says the firm "never sought any employee participation." ESOP's have even led to lawsuits, with employees suing companies for mismanaging the plan.

ESOP's are not necessarily right for every company. "If it's going to be one of many benefits, where ownership will be small, the company needs to look at whether an ESOP is going to be the most cost-effective approach," Sibson's Buyniski says. Korn sums it up this way: "An ESOP is not going to cure a sick company," he says, "but it can enhance a healthy company." □

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